

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**FINANCIAL REPORT**

**December 31, 2012 and 2011**

**DRAFT**

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**FINANCIAL REPORT**

**December 31, 2012 and 2011**

**CONTENTS**

|   | <b>Page</b> |
|---|-------------|
| <b>INDEPENDENT AUDITOR'S REPORT</b>   | <b>1-2</b>  |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>   |             |
| Overview of Financial Statements  | 3           |
| Financial Highlights  | 3           |
| Financial Analysis of the Agency  | 4           |
| Condensed Statement of Net Position   | 4           |
| Condensed Statement of Operating Revenues and Expenses  | 5           |
| Activities for the Year Ended 2012  | 5           |
| Contacting the Agency's Financial Management  | 6           |
| <b>BASIC FINANCIAL STATEMENTS</b>   |             |
| Statements of Net Position  | 7           |
| Statements of Revenues, Expenses and Changes in Net Position  | 8           |
| Statements of Cash Flows  | 9           |
| Notes to Financial Statements   | 10-15       |
| <b>SUPPLEMENTARY INFORMATION</b>  |             |
| Schedule of Indebtedness  | 16          |
| <b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER<br/>FINANCIAL REPORTING AND ON COMPLIANCE AND ON OTHER<br/>MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS<br/>PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> | <b>17</b>   |

## INDEPENDENT AUDITOR'S REPORT

Chairman and Agency Board  
City of Newburgh Industrial Development Agency  
Newburgh, New York

### Report on the Financial Statements

We have audited the accompanying statements of net position of the City of Newburgh, New York Industrial Development Agency (Agency), a component unit of the City of Newburgh, New York, as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the Agency's basic financial statements. The schedule of indebtedness is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of indebtedness is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of indebtedness is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March \_\_, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Albany, New York  
March \_\_, 2013

**CITY OF NEWBURGH, NEW YORK**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the City of Newburgh, New York)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**December 31, 2012 and 2011**

The following Management's Discussion and Analysis (MD&A) provides an introduction and overview to the financial activities and performance of the City of Newburgh, New York Industrial Development Agency (Agency) for the year ended December 31, 2012 and 2011, as mandated by Governmental Accounting Standards Board Statement No. 34. This information should be reviewed in conjunction with the basic financial statements of the Agency.

**Overview of Financial Statements**

The Agency's financial statements are prepared on the accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The Agency is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. See notes to the financial statements for a summary of the Agency's significant accounting policies.

The *Statement of Net Position* presents information on the Agency's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Agency's financial position.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the Agency's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The *Statement of Cash Flows* relates to the flow of cash. Consequently, only transactions that affect the Agency's cash accounts are recorded in this statement. A reconciliation is provided at the bottom of the statement of cash flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

In addition to the basic financial statements and accompanying notes, this report also presents the *Supplementary Schedule of Indebtedness*.

**Financial Highlights**

- In 2012, after a hiatus of 5 years, the Agency successfully filed outstanding audits and PARIS reports. The Agency is now in compliance and able to initiate bond and straight lease projects consistent with General Municipal Law Article 18A.
- In December 2012, the Agency and a developer were advised by the NYS Department of Environmental Conservation that the Agency's Scobie Drive property was eligible to enter the Brownfield Clean-up Program. The first phase of the program will investigate the costs for remediation of the site, suitable for development of a 250,000-300,000 square foot manufacturing facility. A contract to convey the property to the developer was executed in 2013. The conveyance of the property is dependent upon, among other things, outcomes associated with the Brownfield Clean-up Program.
- In 2012, the Agency created a Small Business Straight Lease program to facilitate projects requiring less than \$100,000 in benefits. It should be noted that roughly 95 of the City's businesses employ fewer than 25 workers. The new program consists of application and contract templates to avoid cost of preparation and legal services. Fees generated will be minor.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012 and 2011**

**Financial Analysis of the Agency**

The table below presents condensed financial information derived from the Agency's financial statements as of December 31, 2012 and 2011.

**Condensed Statement of Net Position**

|   | <u>2012</u>       | <u>2011</u>         | <u>Increase<br/>(Decrease)<br/>2012-2011</u> |
|---|-------------------|---------------------|--|
| <b>ASSETS</b>                             |                   |                     |  |
| Current assets                            | \$ 935,257        | \$ 1,060,341        | \$ (125,084)                                 |
| <b>Total assets</b>                       | <u>\$ 935,257</u> | <u>\$ 1,060,341</u> | <u>\$ (125,084)</u>                          |
| <b>LIABILITIES AND NET POSITION</b>       |                   |                     |  |
| Current liabilities                       | \$ 62,536         | \$ 50,811           | \$ 11,725                                    |
| Noncurrent liabilities                    | 430,086           | 454,788             | (24,702)                                     |
| <b>Total liabilities</b>                  | <u>492,622</u>    | <u>505,599</u>      | <u>(12,977)</u>                              |
| <b>NET POSITION, unrestricted</b>         | <u>442,635</u>    | <u>554,742</u>      | <u>(112,107)</u>                             |
| <b>Total liabilities and net position</b> | <u>\$ 935,257</u> | <u>\$ 1,060,341</u> | <u>\$ (125,084)</u>                          |

The overall decrease in net position is due to normal operating activities related to the Agency's efforts to support economic development within the City of Newburgh, as mandated by New York State Law.

Current assets decreased \$125,084 at December 31, 2012. The change was essentially the result of the 2012 operating loss.

Current liabilities increased \$11,725 at December 31, 2012, as compared to December 31, 2011, due to the timing of certain payments at year-end related to professional fees incurred by the Agency.

Noncurrent liabilities decreased \$24,702 at December 31, 2012, as compared to December 31, 2011, due to recognition of revenue under the Agency's long-term lease and easement agreements.

**CITY OF NEWBURGH, NEW YORK**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the City of Newburgh, New York)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2012 and 2011

**Financial Analysis of the Agency - Continued**

The table below present condensed financial information derived from the financial statements of the Agency for the year ended December 31, 2012 and 2011.

**Condensed Statement of Operating Revenues and Expenses**

|                                     | 2012                | 2011               | Increase<br>(Decrease)<br>2012-2011 |
|-------------------------------------|---------------------|--------------------|-------------------------------------|
| Operating revenues                  |                     |                    |                                     |
| Lease income                        | \$ 93,093           | \$ 118,940         | \$ (25,847)                         |
| Operating expenses                  |                     |                    |                                     |
| Administrative fees                 | 81,573              | 84,549             | (2,976)                             |
| Equipment and maintenance           | -                   | 2,005              | (2,005)                             |
| Insurance                           | 3,053               | 1,788              | 1,265                               |
| Office expense                      | 397                 | 604                | (207)                               |
| Professional fees, accounting       | 27,110              | 4,038              | 23,072                              |
| Professional fees, legal            | 82,536              | 90,932             | (8,396)                             |
| Project expenses                    | 20,578              | 27,093             | (6,515)                             |
| Real estate taxes                   | -                   | 2,329              | (2,329)                             |
| Travel expense                      | -                   | 51                 | (51)                                |
| Miscellaneous                       | 1,966               | -                  | 1,966                               |
| Total expenses                      | 217,213             | 213,389            | 3,824                               |
| Deficiency of revenue over expenses | <u>\$ (124,120)</u> | <u>\$ (94,449)</u> | <u>\$ (29,671)</u>                  |

**Activities for the Year Ended December 31, 2012**

Lease income decreased \$25,847 in 2012 as compared to 2011. This was principally related to one annual lease contract payments that was not received in 2012.

Administrative fees decreased in 2012 by \$2,976 as compared to 2011. The Agency entered into several consultant agreements in 2011 to provide management, accounting, and recording services in an effort to improve internal controls and assist in timely reporting to regulatory agencies.

Aggregate professional fees increased in 2012 by \$14,676 as compared to 2011. The Agency continues to incur significant legal fees related to its property at Scobie Drive. The Agency was notified by the United States Environmental Protection Agency (EPA) that it was a Potentially Responsible Party subject to the costs of remediating this property, a portion of the Newburgh Landfill Super Fund site and was required to enter into an access agreement to permit testing and clean-up activities on the property. EPA cleanup work on the site was completed in 2012. The Foundry Project is a historic building slated for redevelopment into condominiums. As a result of property transfer by the City of Newburgh to the Agency, the Agency holds a reverter interest which it may enforce, should the condominiums not be completed in a timely manner. In 2011, the Agency, finding the condominium project beyond the time allotted, and extended, commenced enforcement of the reverter interest and intervened in a foreclosure action against the developer. The Agency has asked the Court to direct the developer to transfer the property to the Agency in accordance with its reverter rights. Corwin Management, owner of a commercial structure, was cited for nonpayment of its PILOT. The Agency authorized counsel to negotiate an agreement to collect \$275,000 due to the City of Newburgh. Such amounts were collected in 2012.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2012 and 2011**

**Activities for the Year Ended December 31, 2012 - Continued**

Project expenses increased in 2012 by \$6,519 as compared to 2011. These expenses principally relate to engineering consultant costs to review clean-up plans for the City of Newburgh Landfill Superfund site as well as fees associated with the preparation of an EPA application for remediation of its 15-acre site at Scobie Drive.

**Contacting the Agency's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact Theresa G. Waivada, Executive Director, at Newburgh City Hall, 83 Broadway, Newburgh, New York 12550.

**DRAFT**



**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**STATEMENTS OF NET POSITION**

|  |  | <u>December 31,</u> |                     |
|--|--|---------------------|---------------------|
|  |  | <u>2012</u>         | <u>2011</u>         |
| <b>ASSETS</b>                              |  |                     |                     |
| <b>CURRENT ASSETS</b>                      |  |                     |                     |
| Cash                                       |  | \$ 187,507          | \$ 853,895          |
| Accounts receivable                        |  | -                   | 9,446               |
| Prepaid expenses                           |  | 750                 | -                   |
| Real property held for sale or development |  | 197,000             | 197,000             |
| Total assets                               |  | <u>\$ 935,257</u>   | <u>\$ 1,060,341</u> |
| <b>LIABILITIES AND NET POSITION</b>        |  |                     |                     |
| <b>CURRENT LIABILITIES</b>                 |  |                     |                     |
| Accounts payable and accrued liabilities   |  | \$ 31,834           | \$ 20,109           |
| Security deposits                          |  | 6,000               | 6,000               |
| Deferred revenue, current                  |  | 24,702              | 24,702              |
| Total current liabilities                  |  | 62,536              | 50,811              |
| DEFERRED REVENUE, less current portion     |  | 430,086             | 454,788             |
| Total liabilities                          |  | 492,622             | 505,599             |
| <b>COMMITMENTS AND CONTINGENCIES</b>       |  |                     |                     |
| NET POSITION, unrestricted                 |  | 442,635             | 554,742             |
|  |  | <u>\$ 935,257</u>   | <u>\$ 1,060,341</u> |

The accompanying Notes to Financial Statements are an integral part of these statements.

**CITY OF NEWBURGH, NEW YORK**  
**INDUSTRIAL DEVELOPMENT AGENCY**  
(A Component Unit of the City of Newburgh, New York)

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

|  | <u>Years Ended December 31,</u> |                          |
|--|---------------------------------|--------------------------|
|  | <u>2012</u>                     | <u>2011</u>              |
| <b>OPERATING REVENUES</b>              |                                 |                          |
| Lease income                           | \$ 93,093                       | \$ 118,940               |
| <b>OPERATING EXPENSES</b>              |                                 |                          |
| Administrative fees                    | 81,573                          | 84,549                   |
| Equipment and maintenance              | -                               | 2,005                    |
| Insurance                              | 3,053                           | 1,788                    |
| Office expense                         | 397                             | 604                      |
| Professional fees, accounting          | 27,140                          | 4,038                    |
| Professional fees, legal               | 82,536                          | 90,932                   |
| Project expenses                       | 20,578                          | 27,093                   |
| Real estate taxes                      | -                               | 2,329                    |
| Travel expense                         | -                               | 51                       |
| Miscellaneous                          | 1,966                           | -                        |
|  | <u>217,213</u>                  | <u>213,389</u>           |
| <b>Operating loss</b>                  | <u>(124,120)</u>                | <u>(94,449)</u>          |
| <b>OTHER INCOME</b>                    |                                 |                          |
| Other                                  | 11,227                          | -                        |
| Interest income                        | 786                             | 39                       |
|  | <u>12,013</u>                   | <u>39</u>                |
| <b>Change in net position</b>          | <b>(112,107)</b>                | <b>(94,410)</b>          |
| <b>NET POSITION, beginning of year</b> | <u>554,742</u>                  | <u>649,152</u>           |
| <b>NET POSITION, end of year</b>       | <u><u>\$ 442,635</u></u>        | <u><u>\$ 554,742</u></u> |

The accompanying Notes to Financial Statements are an integral part of these statements.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**STATEMENTS OF CASH FLOWS**

|   | <b>Years Ended December 31,</b> |                          |
|---|---------------------------------|--------------------------|
|   | <b>2012</b>                     | <b>2011</b>              |
| <b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                   |                                 |                          |
| Receipts from providing services  | \$ 77,837                       | \$ 91,570                |
| Payments to contractors   | (206,238)                       | (65,134)                 |
|   | <u>(128,401)</u>                | <u>26,436</u>            |
| <b>CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>                        |                                 |                          |
| Reimbursement of expenses   | 11,227                          | -                        |
| Payments received on loans receivable   |                                 | 493,528                  |
|   | <u>11,227</u>                   | <u>493,528</u>           |
| <b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>                                   |                                 |                          |
| Interest income earned  | 786                             | 39                       |
|   | <u>786</u>                      | <u>39</u>                |
| <b>Net increase (decrease) in cash</b>  | <b>(116,388)</b>                | <b>520,003</b>           |
| <b>CASH, beginning of year</b>  | <b>853,895</b>                  | <b>333,892</b>           |
| <b>CASH, end of year</b>  | <b><u>\$ 737,507</u></b>        | <b><u>\$ 853,895</u></b> |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                                 |                          |
| Operating loss  | \$ (124,120)                    | \$ (94,449)              |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities |                                 |                          |
| Decrease in   |                                 |                          |
| Accounts receivable   | 9,446                           | 42,332                   |
| Grants receivable   | -                               | 103,000                  |
| Prepaid expenses  | (750)                           | 9,244                    |
| Accounts payable and accrued expenses   | 11,725                          | (8,989)                  |
| Deferred revenue  | (24,702)                        | (24,702)                 |
|   | <u>\$ (128,401)</u>             | <u>\$ 26,436</u>         |

The accompanying Notes to Financial Statements are an integral part of these statements.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*a. Organization*

The City of Newburgh, New York Industrial Development Agency (Agency) was established on July 22, 1982, for the purpose of encouraging economic growth in the City of Newburgh, New York (City). The Agency assists with financing arrangements and has the authority to grant mortgage and sales tax exemptions.

The Agency is considered a component unit of the City. Inclusion in the financial reporting entity, the City is determined based on financial accountability as defined by GASB Statement No. 14, *The Financial Reporting Entity*. Component units are legally separate entities for which the City is financially accountable. The City of Newburgh Council appoints all of the Agency's Board Members. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

*b. Basis of Accounting and Financial Statement Presentation*

The Agency's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Agency is determined by its measurement focus. The transactions of the Agency are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statements of net position.

*c. Use of Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*d. Fair Value Measurement*

Fair value is defined as an exchange price that would be received for an asset or paid to transfer a liability (an "exit" price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date.

*e. Tax Status*

The Agency is exempt from federal, state, and local income taxes.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*f. Cash*

The Agency's investment policies are governed by New York State statutes. In addition, the Agency has its own written investment policy. Agency funds must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Agency is authorized to use demand accounts, money market accounts, and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Deposits are categorized as either (1) insured by FDIC insurance, (2) collateralized, and for which the securities are held by the pledging financial institution's trust department or agent in the Agency's name, or (3) uncollateralized.

Cash balances at both December 31, 2012 and 2011 were fully insured or collateralized.

*g. Accounts Receivable*

Accounts receivable consist of amounts due from lessees based on rental agreements. Management determines the allowance for doubtful accounts, if any, by regularly evaluating individual receivables and considering financial condition, credit history, and current economic conditions. Management considers accounts receivable to be fully collectible; accordingly, there is no allowance for doubtful accounts.

Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. During the years ended December 31, 2012 and 2011, the Agency did not write off any accounts receivable.

*h. Real Property Held for Sale or Development*

Real property held for sale or development includes various real estate parcels in the City carried at the estimated market value of the property at the time of transfer to the Agency or historical value. These properties are typically transferred to the Agency by the City or the State. The Agency also owns or has rights to several real estate parcels which are carried at no cost.

*i. Deferred Revenue*

The Agency recognizes revenue from long-term leasing or easement arrangements over the terms of the respective agreements. Deferred revenue represents the unearned portion of upfront payments received by the Agency.

*j. Payment in Lieu of Taxes (PILOT)*

The Agency enters into and administers PILOT agreements for various unrelated business entities located in Greene County. Under the terms of the PILOT agreements, title to property owned by the unrelated business entity is transferred to the Agency for a certain period of time. During the period in which the Agency holds title, the business entity pays a PILOT to the Agency based on a calculation defined by the specific agreement. The PILOTs allow the companies to make payments that are less than the property taxes that would be paid on the related property's assessed value. Once the PILOT is received, the Agency remits the PILOT to the respective taxing authorities. Certain requirements, as defined by each agreement, are to be met by the company to be able to maintain its PILOT. These requirements, as stated in the PILOT agreement, can be comprised of reaching and maintaining certain employment goals and paying its PILOT in a timely fashion. At the completion of the PILOT, title to the property is transferred back to the third-party business owner, and the property goes back on the tax rolls.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011**

**NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

*i. Payment in Lieu of Taxes (PILOT) - Continued*

As part of the PILOT program, the Agency generates fees for administering the PILOT agreement. These fees are reported as "charges for services" in these financial statements. The Agency also administers bonds for several projects and receives an administrative fee upon issuance of the bond.

PILOT receipts and PILOT payments are accounted for as pass-through transactions and are not included in the revenues or expenses of the Agency. The Agency is responsible for collecting and remitting the funds, and the City ultimately bears the risk of loss if PILOT payments are not paid to the Agency by the respective companies.

*j. Industrial Revenue Bonds and Notes Transactions*

Certain industrial development revenue bonds and notes previously issued by the Agency are secured by property which is leased to companies and is retired by the underlying lease payments. The bonds and notes are not obligations of the Agency or New York State. The Agency does not record the assets or liabilities resulting from completed bonds and notes issued in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and funds arising there from are controlled by trustees or banks as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administration fee income is recognized immediately upon issuance of bonds and notes.

*k. Revenue Recognition*

Revenue is generated from project application and administrative fees, as well as long-term leases. Revenues are recognized when earned and expenses are recognized when incurred. The Agency distinguishes operating revenues and expenses from nonoperating items. Operating revenues are determined based on the services provided by the Agency. Operating expenses include the costs associated with providing those services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*l. New Accounting Standard*

Effective January 1, 2012, the Agency adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. GASB No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. There was no significant impact to the financial statements, as a result of adopting this statement.

*m. Subsequent Events*

The Agency has evaluated subsequent events that provide additional evidence about conditions that existed at the financial statement date through March \_\_, 2013, the date the financial statements were available to be issued.

*n. Reclassification*

Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011**

**NOTE 2 - CONDUIT DEBT OBLIGATIONS**

From time to time, the Agency has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the interest of the public. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Agency, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2012 and 2011, the Agency had no outstanding conduit debt.

At December 31, 2012 and 2011, respectively, the original issue value of bonds issued aggregated \$48,930,000 and \$48,930,000, and the outstanding balance was \$ 31,712,785 and \$39,451,246.

**NOTE 3 - LEASE AGREEMENTS**

The Agency has entered into several long-term leasing or easement arrangements for property owned by the Agency. The agreements generally provided for significant up-front payments and nominal annual payments thereafter. Payments received in advance are initially deferred and are recognized over the lease terms which range from 10-60 years. Income recognized pursuant to these arrangements approximated \$24,802 and \$24,700 during 2012 and 2011, respectively.

The Agency also leases a parcel of land from the City at no cost. The Agency subleases the parcel pursuant to a land lease which provides for the lessee to operate a cell tower. A portion of the rental income received by the lessee under long-term carrier agreements is paid to the Agency pursuant to the sublease. Rental income pursuant to the sublease approximated \$68,290 and \$94,200 during 2012 and 2011, respectively.

The following is a schedule of approximate minimum future rentals expected to be received by the Agency pursuant to the carrier lease arrangements at December 31, 2012:

|                                   |                     |
|-----------------------------------|---------------------|
| For year ending December 31, 2013 | \$ 102,058          |
| 2014                              | 102,058             |
| 2015                              | 102,058             |
| 2016                              | 102,058             |
| 2017                              | 102,058             |
| Thereafter                        | <u>961,950</u>      |
|                                   | <u>\$ 1,472,240</u> |

**NOTE 4 - TAX EXEMPTIONS**

In 2008, the Agency lost its ability to provide exemptions from State taxes as a result of not filing required reports with the New York State Office of the State Comptroller and the Authorities Budget Office of the State of New York, in a timely fashion. During May 2012, the Agency filed the last of the outstanding required reports and regained its ability to grant New York State tax exemptions.

**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011**

**NOTE 5 - COMMITMENTS AND CONTINGENCIES**

*a. Environmental Risks*

During 2011, the Agency received a Notice of Potential Liability from the United States Environmental Protection Agency (EPA), in which the EPA reported that a small portion of the Newburgh Landfill Superfund Site encroached onto a parcel of land owned by the Agency. The EPA had previously believed that the affected parcel was owned by the City of Newburgh. The Agency has entered into an Access Agreement to permit superfund clean-up activities to be carried out on the Agency parcel. As owner of the area of encroachment, the Agency is potentially responsible under federal law for payment of a portion of the clean-up costs. During 2012, the EPA clean-up work was carried out; no hazardous wastes were identified on the Agency's property.

*b. City of Newburgh Local Development Corporation*

As of both December 31, 2012 and 2011, the Agency has fully reserved \$752,740 due from the City of Newburgh Local Development Corporation (LDC) as the LDC does not currently have sufficient working capital to make payments to the Agency.

**NOTE 6 - TRANSACTIONS WITH THE CITY OF NEWBURGH**

*a. Note Receivable*

During 2006, the Agency sold its interest in a local property to the City in exchange for a note receivable due from the City. During 2011, the Agency and the City reached a settlement on the amount due under the note and the Agency received \$493,528, the amount due pursuant to the settlement.

*b. Administrative Services Agreement*

The Agency and the City are parties to an Inter-Agency agreement whereby the Agency agrees to share certain personnel costs of the City and the City agrees to provide certain personnel services to the Agency. The agreement is renewed on an annual basis. Administrative expenses charged under the agreement by the Agency to the City were \$25,818 and \$44,488 during 2012 and 2011, respectively, \$25,818 and \$12,498 of which was included in accrued expenses as of December 31, 2012 and 2011, respectively.



**CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)**

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2012 and 2011**

**NOTE 7 - NEW ACCOUNTING PRONOUNCEMENTS**

During March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statements. This statement is effective for periods beginning after December 15, 2012, with earlier application encouraged.

During March 2012, GASB issued Statement No. 66, *Technical Corrections* - an amendment of Statements No. 10 and No. 62. This statement establishes clarification on two recently issued statements; No. 54, *Fund Balance Reporting and Governmental Fund Type Definition* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement resolves conflicting guidance created as a result of the issuance of these two statements. This statement is effective for periods beginning after December 15, 2012, with earlier application encouraged.

During June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

The scope of this statement also addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics as defined in the statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for periods beginning after June 15, 2014, with early implementation encouraged.

Management has not estimated the extent of the potential impact of these statements on the Agency's financial statements.

CITY OF NEWBURGH, NEW YORK  
INDUSTRIAL DEVELOPMENT AGENCY  
(A Component Unit of the City of Newburgh, New York)

SUPPLEMENTARY INFORMATION - SCHEDULE OF INDEBTEDNESS

| Project Description                         | Original<br>Issue<br>Amount | Original<br>Issue<br>Date | Current<br>Interest<br>Rate | Outstanding<br>January 1,<br>2012 | Issued<br>During<br>2012 | Principal<br>Payments<br>2012 | Outstanding<br>December 31,<br>2012 | Final<br>Maturity<br>Date |
|---|-----------------------------|---------------------------|-----------------------------|-----------------------------------|--------------------------|-------------------------------|-------------------------------------|---------------------------|
| GEMMA                                       | \$ 5,700,000                | 09/96                     | Varies                      | \$ 2,818,889                      | \$ -                     | \$ 363,555                    | \$ 2,455,334                        | 03/18                     |
| Bourne & Kenney                             | 4,500,000                   | 07/99                     | 5.75%                       | 3,780,000                         | -                        | 100,000                       | 3,680,000                           | 02/32                     |
| Belvedere Housing, LP                       | 17,500,000                  | 08/04                     | Varies                      | 13,867,357                        | -                        | 584,906                       | 13,782,451                          | 07/41                     |
| St. Luke's Cornwall Hospital Parking Garage | 21,230,000                  | 11/05                     | Varies                      | 18,485,000                        | -                        | 690,000                       | 17,795,000                          | 10/30                     |
|   | <u>\$ 48,930,000</u>        |                           |                             | <u>\$ 39,451,246</u>              | <u>\$ -</u>              | <u>\$ 1,738,461</u>           | <u>\$ 37,712,785</u>                |                           |

See Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND ON OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Chairman and Agency Board  
City of Newburgh, New York Industrial Development Agency  
Newburgh, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the statement of net position of the City of Newburgh, New York Industrial Development Agency (Agency), a component unit of the City of Newburgh, New York, as of December 31, 2012, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March \_\_, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Agency in a separate letter dated March \_\_, 2013.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Albany, New York  
March \_\_, 2013

DRAFT

March \_\_, 2013

Ms. Theresa G. Waivada, Executive Director  
City of Newburgh, New York Industrial Development Agency  
83 Broadway  
Newburgh, New York 12550

Dear Ms. Waivada:

This letter includes a comment and suggestion with respect to a matter that came to our attention in connection with our audit of the financial statements of the City of Newburgh, New York Industrial Development Agency (Agency) for the year ended December 31, 2012. This item is offered as a constructive suggestion to be considered part of the ongoing process of modifying and improving the Agency's practices and procedures.

#### ACCOUNTING POLICIES AND PROCEDURES

##### Monitoring of Lease Payments

*Observation:* Our audit procedures disclosed that there are no formal procedures in place for tracking lease payments.

*Suggestion:* We recommend that the Agency develop a schedule of all existing leases and implement procedures to monitor actual payments compared to this schedule. This procedure should provide added control over the Agency's accounts receivable and identify unpaid items on a timelier basis. Substantial financial benefits may exist if this simple yet consistent practice is followed.

This letter is solely for the information and use of the City of Newburgh, New York Industrial Development Agency, management, and others within the Agency and is not intended to be and should not be used by anyone other than the specified parties. We appreciate serving City of Newburgh, New York Industrial Development Agency and would be happy to assist you in addressing and implementing the comment and suggestion in this letter.

Very truly yours,

BOHEAM, SHEEDY, TORANT & CO. LLP

Paul L. Goetz, Partner

PLG/dmc

cc: Mr. Michael Curry, Audit Committee Chair